

Can we blame public service workers for the UK's low productivity?

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The issue of the UK's low comparative productivity is well known and documented. Output per hour worked seems to be staying stubbornly below that of our competitors, such as: Germany, France and the US. Improving productivity would enable faster growth and also provide the Chancellor, looking for headroom to allow for tax cuts in the March 6 budget, with more revenues and needing to borrow less to provide support for those out of work and for the economy more generally.

There is a lot that can in theory be done to encourage the private sector to invest and innovate and raise productivity, though it has proved difficult in practice. Is there more chance to achieve success in the public sector which after all is the biggest employer in the UK, with nearly 5.9m people working for central and local government directly it and many more indirectly. After all, given that so many of its services are provided by payments to the private sector- think of GPs, universities, construction companies for example- any improvement in efficiency would have an impact multiplied many times over for the economy as a whole.

Well- it sounds simple. But of course it isn't. The Office for National Statistics(ONS) estimates suggest that public sector productivity growth, quality adjusted, has been just some 0.2% on average per annum between 1997 and 2019 with the series disrupted and less easy to assess during the pandemic and post pandemic era. Numerous attempts to reform public services- think of the NHS- do not seem to have had the results one would have hoped for in terms of health outcomes at least. And because we have for example such a decentralised planning decisions system down to very local levels, the private sector finds a lot of what it is trying to do blocked or subject to big delays. And given that public procurement and project management skills remain poor across the public sector as a whole, a lot of money is arguably wasted on infrastructure and other capital projects- including big IT systems, without the benefit one would want to see in terms of improved outcome. Witness HS2 , the Horizon Fujitsu issue- and many more.

So what can be done? Better skills across most areas of activity, particularly in project management would help. But better understanding of exactly what is going on in the provision of public services is paramount. Improving data collection and measurement therefore is essential. But the truth is that in this area much of what is counted- though there are exceptions- is the amount of input into the system, i.e. hours worked or numbers of doctors, policemen and women, prison officers- rather than outcomes. And there is the added difficulty of how to estimate over a period the quality of those outcomes . In the NHS and in education for example, where the outcomes, such as improved health of the nation take a long time to be assessed and evaluated, one has to rely on shorter data which provide an incomplete picture- such as A&E waiting times or speed of being seen for cancer treatment.

Similarly for reforms in the education system, such as early years education and new GCSEs say, where the measure should not be just grade attainment levels in the short to medium term but the longer term raising of skills levels which is a very significant input to productivity. And because no price is often charged for most of the public services we consume, it is more difficult to see the right value put on them by those who use them. So the information is bitty and any detailed analysis done on public sector productivity is out of necessity often only partial. And we also know that setting targets for improvement in one part of the service often

leavers a budget- constrained department shifting resources from elsewhere, so other things deteriorate.

So how much is spent on services overall does matter over a period. Of course how efficiently the money is spent also matters and value for money, both for current and capital expenditure, needs to be properly assessed. The focus must be on outcomes with the impact estimated across departments given that funding increases or cuts in a particular department or service can have wider implications that reach across departmental boundaries.

In truth, we have seen some improvement in measurement recently and a longer review is underway by the ONS. Much more work needs to be done to understand what is going on. International comparisons do not help much as each public sector in the developed world has its own unique mix of structures and incentives with different political choices influencing expected outcomes. Over here upskilling and better procurement capabilities and controls would all help of course. But one lesson from all this is nevertheless clear. Starving public services of funds, whether for paying personnel or to repair/improve capital stock and make it fit for purpose (e.g. hospitals , school buildings, prisons) eventually comes back to bite you. But by then there is probably likely to be a different political party in charge..

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